

Annex XIII: Accreditation assessment of Applicant 042 (APL042)

I. Introduction

1. Applicant 042 (APL042), the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), is an international entity, specifically the development bank of the Netherlands, with a focus on private sector development in developing countries. The applicant uses a variety of financial instruments to support private sector investments in sectors relevant to sustainable development and climate change mitigation and adaptation, such as renewable energy including solar power, wind power and hydropower, energy efficiency and forestry. The applicant has accomplished this by partnering with local private sector institutions in developing countries to implement climate-resilient projects and programmes.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 23 January 2015. The Stage I institutional assessment and completeness check was completed on 10 February 2016 and was progressed to the Stage II (Step 1) accreditation review, which has been concluded with the publication of this assessment. The applicant has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** international access;
- (b) **Track:** fast-track under the Directorate-General for International Development and Cooperation of the European Commission (DG DEVCO) (part-way through Stage I; previously under the normal track);
- (c) **Maximum size of an individual project or activity within a programme:** large;¹
- (d) **Fiduciary functions:**²
 - 1. Basic fiduciary standards;
 - 2. Specialized fiduciary standard for project management;
 - 3. Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
 - 4. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and
- (e) **Maximum environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)).³

¹ As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), “large” is defined as “total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 250 million for an individual project or an activity within a programme”.

² Decision B.07/02.

³ As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category A is defined as “Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented” and intermediation 1 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

II. Stage I institutional assessment and completeness check

3. The applicant originally applied under the normal-track accreditation process and became eligible part-way through Stage I for the fast-track accreditation process as a DG DEVCO entity. Its application has been assessed by the Secretariat during Stage I, initially as a normal-track application, then subsequently in accordance with the requirements and gaps identified in decisions B.08/03, B.10/06 (decision expanding the list of potentially eligible fast-track entities to include the applicant) and B.12/30.

2.1 Legal status, registration, permits and licences

4. The Secretariat reviewed the information provided by the applicant regarding its legal status as well as relevant and applicable registrations, permits and licences. FMO was established in 1970 and is registered as a public limited liability company by the Netherlands Chamber of Commerce Business Register.

2.2 Institutional presence and relevant networks

5. The applicant is a public-private partnership with a track record of more than 45 years and an investment portfolio of EUR 9.2 billion in more than 85 developing countries. It has an investment portfolio of EUR 2.9 billion in Africa, EUR 2.4 billion in the least developed countries and EUR 92 million in small island developing States. Its global presence has enabled the applicant to establish relationships with national and international private sector entities and investment funds, as well as regional and international multilateral agencies, with whom it has partnered to deliver climate-resilient projects.

6. The applicant's focus is on green projects, particularly renewable energy projects such as solar, wind, ocean and geothermal power, hydropower and heat; energy efficiency projects in buildings, public services, agriculture and industry, and retrofitting and improving power plants and power infrastructure; and responsible agriculture, food production, forestry, transport and water projects, including biosphere conservation projects.

7. The applicant seeks accreditation to the GCF to support its strategic goal of doubling its impact and reducing its carbon footprint by half by 2020. Green investments represented 27 per cent of the applicant's total commitments in 2015, and by 2020, the applicant is committed to increasing this to at least 40 per cent (equivalent to USD 2 billion in new green commitments). The applicant's objectives in relation to green projects are well aligned with the GCF objective of assisting developing countries towards low-emission and climate-resilient pathways. In order to achieve its goal, the applicant seeks to use its experience of mobilizing and enabling the private sector in developing countries to carry out projects in the areas of agribusiness, infrastructure, renewable energy generation, energy efficiency, forestry and water. In addition, the applicant intends to continue strengthening the capacity of its national and regional partners through its capacity development programmes which provide financial, managerial and technical capacity-building.

2.3 Track record

8. The applicant mobilizes and catalyses financial resources from its national, regional and international partners for the implementation of climate change mitigation and adaptation related projects in developing countries. The applicant offers loans, equity and guarantees to its partners and follows environmental, social and gender standards to ensure that its activities

have a positive impact on local communities. As at December 2015, the applicant's green portfolio amounted to EUR 1.22 billion, including climate-related activities in areas such as agriculture, low-carbon technologies, energy efficiency, renewable energy and forestry.

9. Activities related to climate change undertaken by the applicant in various geographic areas include:

- (a) USD 65 million for the Cerro Del Aguila S.A. hydropower project in Peru;
- (b) USD 29.5 million for the Jordan Wind Project Company wind power project in Jordan;
- (c) USD 36 million for the Itezhi Tezhi Power Corporation hydropower project in Zambia;
- (d) USD 20.2 million for the Global Climate Partnership Fund, a public-private partnership that provides green credit lines to banks around the world, including support for implementation and reporting; and
- (e) USD 15 million invested as a part of USD 150 million for the first close in the Tropical Asia Forest Fund, an Australian-based fund whose aim is to introduce 'best in class' management systems and modern forestry practices to hardwood timber plantations and sustain environmental assets in the Asia-Pacific region.

III. Stage II accreditation review assessment

10. The applicant became eligible for the fast-track accreditation process as a DG DEVCO entity part-way through Stage I. Its application has been assessed by the Accreditation Panel (AP) during Stage II (Step 1) against the standards of the GCF in accordance with the requirements and gaps identified in decisions B.08/03, B.10/06 and B.12/30.

11. As part of this assessment, the AP consulted the applicant's website and third-party websites to complement the information provided in the application.

3.1 Fiduciary standards

3.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

12. As per paragraph 10 above, the basic fiduciary standards concerning key administrative and financial capacities are considered to have been met by way of fast-track accreditation.

3.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

13. As per paragraph 10 above, the basic fiduciary standards concerning transparency and accountability, with the exception of item 4.2.5, anti-money laundering and countering the financing of terrorism policies, have been met by way of fast-track accreditation.

14. Regarding item 4.2.5, the applicant has anti-money laundering and anti-terrorist financing policies which are implemented through a robust 'know-your-customer' due diligence procedure. 'Know-your-customer' files are created for all clients by the applicant's front office (first-line monitoring) and are checked by its compliance department (second-line monitoring).

15. Although the applicant does not provide payment services on behalf of clients (i.e. it does not provide current accounts), it has adequate internal procedures and the necessary controls for ensuring that any funds transferred by wire are received by the intended recipients and that the payments received are from the expected sources/parties. The mechanisms for monitoring electronic fund transfers are detailed in the applicant's manuals on settlement payments and payment of expenses, copies of which were provided in the application.

16. The applicant's anti-money laundering and anti-terrorist financing policies, procedures and practices are aligned with the recommendations of the International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation.

3.1.3 **Section 5.1: Specialized fiduciary standard for project management**

17. The applicant has more than 40 years of experience in financing and managing projects in developing countries. Its operations currently entail annual commitments averaging EUR 1.5 billion, for about 150 different projects globally.

18. The applicant has comprehensive operational policies and procedures that guide project identification, preparation, appraisal, oversight and control, as well as monitoring and evaluation activities. In addition, the applicant has a 'project at risk' system used as an early warning system to identify project problems at an early stage and address them in a timely manner. Examples of project appraisal, monitoring and evaluation reports, which demonstrate the effective use of these policies and procedures, were provided as evidence of the implementation of relevant policies and procedures.

19. However, the applicant does not have in place some of the policies, procedures and evidence required by the fiduciary standards of the GCF, namely:

- (a) Policies and procedures for reporting on results achieved, lessons learned and recommendations on a project-by-project basis. The applicant currently reports on project results on a portfolio basis only;
- (b) A policy on disclosure of the evaluation reports on a project-by-project basis; and
- (c) Evidence to demonstrate that evaluation reports are disseminated on a project-by-project basis.

3.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

20. As per paragraph 10 above, the specialized fiduciary standard for grant award and/or funding allocation mechanisms is considered to have been met by way of fast-track accreditation.

3.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

21. The applicant is one of the largest bilateral development finance institutions globally and has a proven track record in on-lending and blending with resources from other international or multilateral sources. The applicant's on-lending activities mainly entail providing funds to intermediaries, who in turn on-lend the funds to end users in target markets in accordance with a set of pre-agreed criteria.

22. The applicant has appropriate and well-documented policies and procedures that guide its operations, including:

- (a) Due diligence of the organizations seeking financing from the applicant;
- (b) Investment and portfolio management; and
- (c) Financial risk management.

23. The supporting documentation provided by the applicant demonstrates the effective use of and compliance with its on-lending and blending policies and procedures. The information provided also demonstrates that the applicant has the capacity and systems in place to channel funds transparently and effectively, and, if accredited, to transfer GCF funding advantages to final beneficiaries.

24. The applicant has also demonstrated sound financial risk and asset and liability management policies, procedures and governance/organizational structures that ensure the appropriate segregation of duties between the treasury function and operations.
25. The applicant has been rated by two rating agencies: 'AAA' by Fitch Ratings and 'AA+' by Standard & Poor's.

3.2 Environmental and social safeguards

3.2.1 Section 6.1: Policy

26. The applicant has provided its environmental and social safeguards (ESS) policy, which defines its environmental and social (E&S) objectives and principles based on the 2012 performance standards of the International Finance Corporation and the Third Generation Equator Principles, which are consistent with the GCF interim ESS. The applicant has developed tools to support its clients in terms of environmental, social and governance risk management. The tools are specifically targeted at private equity investment funds, microfinance institutions and small- and medium-sized enterprise banks. The policy indicates the staff responsible for ensuring conformance with the policy and for its execution. The applicant's ESS policy is communicated to all levels within the organization and is available on its external website.

3.2.2 Section 6.2: Identification of risks and impacts

27. The applicant has provided documentation which describes its institutional process for risk and impact identification and categorization of all its investment transactions. The applicant has also provided samples of project screening templates as evidence of its track record of applying this process, which is consistent with the GCF interim ESS. In addition, the applicant has provided a sample of illustrative projects and descriptions from the past three years showing the respective project E&S risk categories. The risk categorization is determined by the applicant's investment officers supported by E&S officers within the organization.

3.2.3 Section 6.3: Management programme

28. The applicant's environmental and social management system (ESMS) incorporates an overall process which describes the E&S requirements at each stage of financing, including the applicable standards and guidelines, and related templates to be applied in the management of mitigation measures to address the E&S risks and impacts identified. The process also describes the E&S responsibilities of the applicant's staff involved in the project, which include investment staff, E&S officers and the credit department. The applicant has provided sample project documentation demonstrating the application of its E&S mitigation and management process.

3.2.4 Section 6.4: Organizational capacity and competency

29. The applicant has provided an organizational chart which identifies key units, departments, and senior and line management personnel responsible for implementing the ESMS along with their authority and reporting lines. The applicant has also provided a document describing the job descriptions and responsibilities of its E&S officers and E&S analysts, which is clear and communicated throughout the organization. The applicant has instituted several E&S-specific training programmes which are developed and presented by external experts, in close consultation with its staff. All investment officers and E&S staff are expected to attend such courses. Excerpts from some of the training programmes were provided in the application.

3.2.5 Section 6.5: Monitoring and review

30. The applicant's monitoring process is briefly described in its ESS policy and further detailed in its operational guidelines, which elaborate on the specific approaches for 'direct investments' (financing private companies) and 'indirect' financing through financial institutions. The applicant's portfolio management guidelines describe the types of activities undertaken by its operations function in performing the monitoring tasks. Portfolios that are considered to be high risk are reviewed by the credit department every year according to a pre-defined schedule. The credit department is also involved when material changes occur which impact on the credit risk. The applicant's E&S monitoring system allows it to track compliance with E&S improvement actions on a client-by-client basis.

31. The applicant's portfolio performance is audited by its internal audit department at the beginning of each year. A sample of performance reports was provided in the application, illustrating the reports submitted to its senior management on the effectiveness of the ESMS. The applicant also provided evidence of an internal audit of the implementation of its E&S action items, which were verified by external auditors. In addition, the applicant provided reports from the past two years, conducted by two external rating agencies, on its E&S performance, both of which show improvements in the applicant's E&S performance.

3.2.6 Section 6.6: External communications

32. The applicant has channels to receive and register external communications that can be found on its website, and has a dedicated E&S officer in its communications department to process such enquiries. The applicant's policy also requires the executing entities that it oversees to develop and manage a grievance mechanism for projects financed by the applicant. However, the applicant indicated that it does not yet have a policy or practice of providing project-level E&S assessment reports, nor does it conduct ex-ante disclosure of E&S information. As such, it also does not have evidence of the public disclosure of such E&S information for its projects. The applicant has indicated its willingness to align its policy with the GCF information disclosure policy.

33. The applicant is currently setting up a stakeholder engagement strategy to conform to its integrated reporting guidelines, and plans to finalize the strategy following consultations with non-governmental organizations.

3.3 Gender

34. The applicant does not yet have a specific gender policy in place in line with the GCF gender policy. The applicant's current approach to addressing gender-specific aspects is through the application of its human rights policy as well as via the International Finance Corporation's performance standard addressing vulnerability, which specifically includes women. Gender-specific aspects are reviewed at the project appraisal stage and separate measures are incorporated into stakeholder engagement processes or mitigation planning. Additionally, the applicant requires clients to contractually commit to the International Labour Organization's core labour standards, which include the elimination of discrimination in the workplace.

35. The applicant is currently conducting exploratory research and has commissioned studies to assess how best to integrate a gender-sensitive approach into its investment decisions. This includes a gender review of its portfolio as part of the implementation of its inclusive approach of targeting 'base-of-the-pyramid' people. The applicant has not provided any specific information on its competencies in terms of qualifications and experience to implement gender policies and practices. The applicant has indicated that it does not yet have any projects in its climate change related portfolio with a specific gender focus in the investment.



IV. Conclusions and recommendation

4.1 Conclusions

36. Following its assessment and noting that the applicant has been assessed under the fast-track accreditation process part-way through the process, the AP concludes the following in relation to the application:

- (a) The applicant meets the requirements of the GCF basic fiduciary standards, specialized fiduciary standard for grant award and/or funding allocation mechanisms, and specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees. The applicant partially meets the requirements of the GCF specialized fiduciary standard for project management. The applicant has not provided policies, procedures or evidence related to evaluation reports on a project-by-project basis, as required by the specialized fiduciary standard for project management, but instead provided evaluation reports on a portfolio basis;
- (b) The applicant partially meets the requirements of the interim ESS of the GCF in relation to the high E&S risk (Category A/I-1); and
- (c) The applicant has not demonstrated that it has a gender policy aligned with the gender policy of the GCF, nor has it provided evidence of gender-specific competencies, or demonstrated that it has experience with gender considerations in the context of climate change.

4.2 Recommendation on accreditation

37. The AP recommends, for consideration by the Board, the applicant APL042 for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Maximum size of an individual project or activity within a programme:** large (including micro,⁴ small⁵ and medium⁶);
 - (ii) **Fiduciary functions:**
 1. Basic fiduciary standards;
 2. Specialized fiduciary standard for project management;
 3. Specialized fiduciary standard for grant award and/or funding allocation mechanisms; and
 4. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and

⁴ As per annex I to decision B.08/02, "micro" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including USD 10 million for an individual project or an activity within a programme".

⁵ As per annex I to decision B.08/02, "small" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 10 million and up to and including USD 50 million for an individual project or an activity within a programme".

⁶ As per annex I to decision B.08/02, "medium" is defined as "maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above USD 50 million and up to and including USD 250 million for an individual project or an activity within a programme".

- (iii) **Maximum environmental and social risk category:** high risk (Category A/I-1) (including lower risk (Category B/I-2⁷ and Category C/I-3⁸)); and
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes;
- (i) Condition(s) prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Develop and demonstrate effective implementation of policies and procedures for providing information on results achieved and lessons learned, and their public disclosure, on a project-by-project basis;
 2. Develop and demonstrate effective implementation of a policy on the disclosure of the evaluation reports on a project-by-project basis;
 3. Adopt and demonstrate effective implementation of policies and practices on the disclosure of project E&S assessments, as well as a stakeholder engagement strategy, in line with the GCF information disclosure policy and the GCF interim ESS (performance standard 1), respectively; and
 4. Adopt a gender policy in line with the GCF gender policy, and demonstrate progress in developing appropriate competencies to implement, and experience in applying, the policy.
38. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 37 above, and agrees to the recommendation.

⁷ As per annex I to decision B.07/02, category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” and intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

⁸ As per annex I to decision B.07/02, category C is defined as “Activities with minimal or no adverse environmental and/or social risks and/or impacts” and intermediation 3 is defined as “When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts”.